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# Livestock, Dairy, and Poultry Outlook

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## Dairy Markets Adjust, But Are Expected To Remain Tight

**NOTE:** Due to uncertainties regarding the bans on trade of ruminant products due to the discovery of BSE in Canada and the United States in 2003, forecasts for 2004 and 2005 assume a continuation of policies currently in place. Subsequent forecasts will reflect any announced changes.

Wholesale prices of cheese and butter in mid-June were down almost 20 percent from their April peaks. The April peaks likely represented an over-reaction to the large February-March declines in milk production and the sharp March-April surge in wholesale cheese movement. Even though prices probably will slip from spring levels, dairy markets are expected to stay fairly tight through most of 2004. Production will be weak, and demand is projected to stay reasonably good. Prices may stay somewhat volatile, and temporary reversals of the general downtrend are a possibility. For all of 2004, farm milk prices are projected to easily surpass 1998's record.

Beef production continues well below year-earlier levels, although slaughter and weights are rising seasonally. Even with reduced exports and record imports, beef supplies remain tight, and retail beef prices are again rising, but remain below the record levels set last fall. Reduced steer and heifer slaughter and lighter weights are contributing to more than a 7-percent decline in beef production in the first half of 2004. In addition, cow slaughter has been sharply reduced due to the initial stages of beef cow retention and strong dairy prices, further reducing beef production. Fed cattle and beef prices have surged this spring, but remain below the record levels set last fall.

Higher pork production accompanied by higher producer prices for hogs and retail prices for pork continue to define the pork sector this spring. Second-quarter hog prices (51-52 percent lean, live equivalent) are expected to average \$54-\$55 per hundredweight (cwt), almost 28 percent higher than a year ago, with second-quarter production expected to exceed last year's by more than 3 percent. Second-quarter retail pork prices are expected to run about 4 percent higher than a year ago, suggesting that consumers are willing to pay higher prices for greater quantities of pork products. The *Quarterly Hogs and Pigs*

### Contents

[Dairy](#)  
[Cattle/Beef](#)  
[Beef Trade](#)  
[Hogs/Pork](#)  
[Poultry](#)  
[Contacts and Links](#)

### Tables at a Glance

[Red Meat and Poultry](#)  
[Economic Indicators](#)  
[Dairy](#)

### Web Sites

[Animal Production and Marketing Issues](#)  
[Cattle](#)  
[Dairy](#)  
[Hogs](#)  
[Poultry and Eggs](#)  
[WASDE](#)

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The next release is  
June 29, 2004  
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Approved by the  
World Agricultural  
Outlook Board.

report, which should provide an indication of producers' responses to recent prices, will be released on June 25.

Despite strong wholesale prices for most broiler products, production has been expanding at only a moderate rate. Production indicators (eggs placed in incubators, chicks placed, and the broiler-type laying flock) suggest a relatively slow pace of expansion this year. Poultry exports are now expected to be lower this year than previously expected. Continued trade restrictions, which were triggered by Avian Influenza outbreaks, and higher prices for broiler products, especially leg quarters, reduced export expectations.

U.S. turkey production continued to decline in April after falling by 5.6 percent in the first quarter of 2004. For the year, turkey production is expected to total nearly 5.4 billion pounds, down 4.5 percent from a year ago. With tighter supplies of most protein products and lower turkey production, wholesale prices of almost all turkey products are expected to be well above their year-earlier levels.

### ***Dairy Prices Adjust***

Wholesale prices of cheese and butter in mid-June were down almost 20 percent from their April peaks. The April peaks represented an over-reaction to the large February-March declines in milk production and the sharp March-April surge in wholesale cheese movement. The flow of milk and milk solids into cheese production, the easing of declines in milk production, and the subsiding fears of buyers triggered a price adjustment that probably will persist (at a rather gradual rate) through most of the rest of 2004.

Dairy markets are expected to stay fairly tight through most of 2004, even though prices probably will slip from spring levels. Production will be weak, and demand is projected to stay reasonably good. Unless pipeline stocks have been built to very large levels, further sharp price breaks do not seem likely. In fact, prices may stay somewhat volatile and temporary reversals of the general downtrend are certainly possible. For all of 2004, farm milk prices are projected to easily surpass 1998's record.

### ***Milk Production Declines Ease***

In the 20 major dairy States, April milk production was less than 1 percent below a year earlier, a considerably smaller decrease than during February-March. However, the changes represented the start of weakening production a year ago more than any real recovery this year. Milk production is likely to continue to be weakened by several key forces, but the largest year-to-year drops probably are past.

Milk per cow stayed very weak. Output per cow in the 20 States was slightly above a year earlier in April after slipping below in February-March. Compared with the 5-year moving average, milk per cow since February has represented an annual growth rate of well under 1 percent, only about a third of the long-run trend.

Reduced availability of bovine somatotropin (BST) obviously was a major contributor to weak milk per cow. However, other factors clearly were at play because milk per cow was fairly weak even before

the BST allocations were announced. Milk-feed price ratios this winter wound up moderately favorable, as they had been during the second half of 2003. However, farmers may have been more quickly aware of last winter's rising concentrate feed prices than they were of rises in milk prices. In addition, irregular forage quality undoubtedly played a role.

Concentrate feed prices have been high and volatile across almost all feeds. Both domestic and export demand has been brisk. Feed markets are projected to stay tight through 2005, although prices might slip somewhat once this year's crop becomes available. This year's average increase in feed prices is not expected to match the rises in average milk prices, leaving the most favorable milk-feed price ratios since 2001.

The new forage year in most dairy areas seems to be starting much like the last two—mixed. The main exception is the West, where alfalfa hay prices jumped in May. In much of the region, tight supplies of irrigation water threaten this year's alfalfa output. Untimely rains in the Northwest aggravated problems by dropping the average quality of first cutting. Western hay conditions probably will be considerably more difficult than they have been for a couple years.

Growth in milk per cow is projected to stay weak during the rest of 2004. A slight recovery is expected during the second half, but substantial improvement is not likely until normal availability of BST returns. Milk per cow is expected to rise less than 1 percent in 2004 on a daily average basis. Milk per cow is projected to rise a relatively large 3 percent in 2005. However, even this increase would not make up for ground lost in recent years.

### ***Farmer Response to Record Prices Muted***

Milk cow numbers in the 20 States have been about steady since the start of 2004. Year-to-year decreases slipped from 1.2 percent in January to 1.0 percent in April. The stronger-than-expected milk prices undoubtedly were the main factor stemming decreases in cow numbers by allowing weaker producers to continue milking.

Dairy farm exits are expected to become slightly more common if milk prices slip during the second half as projected. However, declines in cow numbers from early 2004 probably will be small. Returns should still be fairly strong through yearend, and recent record milk prices have provided a considerable cushion for the rest of the year. However, the presumed return to normal availability of BST, more ample heifer supplies, lower expected returns, and the scheduled 2005 end to the Milk Income Loss Contracts should lead to increased exits by late-2004 and 2005.

Record milk prices provided strong incentive to keep facilities at maximum capacity. However, they probably will provide considerably less stimulus for new expansions than normal. Farmers are apt to view these strong prices as based on temporary factors that will dissipate by next winter. Also, the relatively few expansions begun in late 2003 and the tight supplies of replacement heifers meant that few new facilities were positioned to be rushed into production.

Tight supplies of replacement heifers and high milk prices have caused replacement prices to jump. In April, replacements were up almost \$200 from January and almost \$300 from a year earlier. Even so, the price increase seemed mostly to reflect reduced heifer supplies rather than strong demand from expanding producers. The difference between replacement price and slaughter value was only moderately higher than during 2003 and well below the levels of late 2001-2002. Based on the data for January 1, 2004, supplies of springer heifers should ease somewhat by late this year. However, resumption of imports of Canadian heifers remains uncertain.

By 2005, stronger producers will have a nest egg from this year's high prices and are projected to face easing feed costs and milk prices considerably higher than the stressful 2002-03 period. These farmers likely will resume more normal long-term expansion. However, their plans probably will stay conservative until they become convinced that milk prices will not return to 2002-03 levels. The main impact of these expanders may not be felt until late 2005.

By the end of 2004, milk cow numbers are projected to be about 1 percent below a year earlier, considerably less than the first-half declines. Cow numbers next year are expected to be a mirror image of this year, with second-half declines larger than during the first half. Milk cows are expected to post an average decrease of more than 1 percent in both years.

In 2004, milk production is expected to slip fractionally. Even if output moves above a year earlier by late in the year, these gains are unlikely to offset earlier losses. Milk production could increase in 2005 if more normal conditions return. Output is projected to rise a moderate 1 to 2 percent.

### ***Cheese Grabs Lion's Share of Smaller Milk Supply***

Lower milk production reduced supplies of milk for manufacturing during February-April by more than 3 percent (on a daily average basis) from a year earlier. Strong cheese movement pulled increased amounts of milk away from butter-powder and into cheese production, even before the March increases in cheese price gave cheese plants a commanding advantage in competing for milk. During February-April, cheese production rose about 6 percent, while butter output fell 16 percent, and nonfat dry milk a similar amount. Part of the additional cheese probably was made from nonfat dry milk and cream.

Manufacturing milk supplies are expected to stay tight during most of the rest of 2004. With sluggish milk production, output of manufactured products probably will stay below a year earlier until autumn. However, a slight easing is possible this summer as ice cream makers and others start to dip into their stocks of milkfat. Cheese production is projected to continue to pull milk away from output of butter and nonfat dry milk.

May 1 commercial stocks totaled just over 10 billion pounds, milk equivalent, on a milkfat basis, down more than 2 billion pounds from a year

earlier and the lowest since 2001. Most of the drop was in butter holdings, although commercial stocks of cheese were somewhat smaller. May 1 manufacturers' stocks of nonfat dry milk were also below the levels of most recent years. Commercial stocks on a skim solids basis came to less than 9 billion pounds, milk equivalent, down slightly from the 2 preceding years.

Dairy markets probably will be quite sensitive in coming months to warehouse inventories and perceptions of pipeline stocks. Commercial stocks are expected to stay relatively lean but not inadequate. Pipeline holdings probably will be gradually worked off this summer before being rebuilt for autumn holiday demand. Any deviations from those expected patterns could have significant price implications.

### ***Cheese Disappearance Booms***

Cheese buyers seemed insatiable in March-April. Commercial disappearance of American varieties jumped more than 6 percent from a year earlier, and movement of other varieties almost 9 percent, as prices shot up to records by late April. These increases in cheese disappearance (equivalent to about 1 billion pounds of milk) caused dramatic changes throughout dairy markets.

Commercial disappearance of all dairy products (milk equivalent, skim solids basis) astoundingly rose almost 9 percent from a year earlier during March-April. The boom in cheese movement turned a persistent large surplus of skim solids into a drawdown of Government powder stocks. On a milkfat basis, the increase in disappearance was much less impressive because a 9-percent decline in butter movement offset a sizable share of the increase due to cheese.

Commercial disappearance of nonfat dry milk during March-April more than doubled its 2003 level. A large share of this movement probably was used in cheese vats as cheesemakers struggled to keep up with their customers' orders. Even so, most of the jump probably wound up in the stocks of users or resellers.

The share of the heavy March-April movement that was actually used during those months will be crucial to dairy price prospects in coming months. Underlying dairy product demand apparently has recovered substantially since last summer, with all segments showing some strength. Even so, large quantities of dairy products almost certainly were tucked away, as price jumps encouraged users to buy a little more than they thought they probably would need. Price declines normally would cause users to start reducing these pipeline holdings by buying less than normally. However, the still high uncertainty about second-half conditions probably has muted this tendency.

### ***Powder Surplus Dissolves for a While***

Purchases of nonfat dry milk under the price support program have been modest since February, particularly since a significant share of recent purchases has been fortified powder for food aid use covered by earlier contracts. Net removals during March-May were actually negative as unrestricted sales (including that swapped for process cheese and pudding) exceeded purchases. Most of this drop in surplus was caused by the extraordinary cheese movement and the resulting hunger of cheesemakers for milk solids.

Use of skim solids as food ingredients may have picked up, and small commercial exports of nonfat dry milk and blends have helped boost demand for separated skim solids. However, the disappearance of surplus skim solids probably is temporary. Purchases are projected to continue through the second half of 2004, although at levels considerably below those of 2002 or 2003. For all of 2004, surplus removals on a skim solids basis are expected to be only about one-third those of 2003 and the smallest since 1996. With expanded milk production in 2005, the skim solids surplus is projected to rise slightly but stay well below those of most recent years. The surplus of milkfat is expected to be trivial in both years.

## ***International Markets Firm***

International dairy markets have remained firm. Demand for milk powders has been fairly good from the growing Asian economies and other importers. Until recently, users of nonfat dry milk had no incentive to buy more than their current needs because of the availability of U.S. powder at little or no premium. That may have changed somewhat now that U.S. Government holdings of young powder have been virtually exhausted.

Butter demand also has improved. Russian imports have been relatively strong, and higher oil prices have helped Middle Eastern demand. Meanwhile, the trend shift from skim milk powder to whole milk powder is removing milkfat from international markets.

Export supplies are limited. The European Union (EU) has had lower milk production, with sales into intervention considerably below a year earlier. Although the accession of the 10 new members makes the EU situation more uncertain than normal, export supplies are expected to trail last year's levels. Between reduced export supplies and the strength of the euro, the EU may be rather conservative about setting their export subsidies.

New Zealand ended their season with about a 4-percent increase in milk production. Although Australia had a strong end to their season, the season total was somewhat below a year earlier. In both cases, stocks reportedly are adequate only to cover contract commitments. Significant questions persist about Oceania's production in the coming season. Australia's drought in 2002/03 apparently did lasting harm to the dairy industry, and they are skeptical about regaining their 2001/02 level during the next couple seasons. New Zealand has had a stronger pattern of production in recent seasons but may not be able this season to recover fully from recent flood damage in parts of the North Island.

Early June butter prices were about \$1,900 per metric ton (fob, Northern Europe), up about \$600 from a year earlier. Meanwhile, nonfat dry milk was priced at about \$2,100 per ton, about \$400 higher than a year ago. Most of these price rises occurred since last winter. Prices are expected to stay strong, at least until large quantities from Oceania become available in late 2004. Even then,

demand may be good enough to absorb the somewhat limited export supplies without much price impact, particularly for milk powders.

U.S. imports of dairy products during January-April were about the same as a year earlier on a milkfat basis and slightly smaller on a skim solids basis. Imports of butter within tariff-rate quotas (TRQ) were considerably larger, as were imports of most cheese categories. However, total cheese imports were down because of sizable declines in nonquota imports of Goya and high-tariff imports of American-types.

Relative domestic and international prices during March-April nominally were conducive to larger imports of milkfat and whole milk products. The lack of response can be attributed to the relatively tight market supplies and the very short time to respond. Over-TRQ imports of butter and butteroil were small, indicating that no trader had large amounts of free butter positioned to be shipped quickly. On the other hand, imports of skim solids have been discouraged because our domestic price is quite competitive with international prices.

Imports during the rest of the year are projected to be fairly normal. With generally good demand and tight supplies, exporters are unlikely to jeopardize continuing trade relationships for the sake of short-run profits from shipments to the United States. This tendency will be even more pronounced if U.S. prices slip as expected this summer.

Modest commercial exports of nonfat dry milk occurred during January-March. The most active interest reportedly has been in blends containing nonfat dry milk, where unfortunately it is not possible to discern the nonfat dry milk content. Winter exports of cheese also were well above a year earlier. Higher international prices probably boosted spring commercial exports of nonfat dry milk, but record domestic cheese prices undoubtedly deterred cheese exports. Powder exports may be significant during the rest of the year if international prices stay as strong as expected.

## ***Wholesale Prices Drop***

April peaks in wholesale prices of butter and cheese proved unsustainable once buyers became

aware that their collective “prudence” represented an over-reaction to tight market fundamentals. By May, declines in milk production were beginning to ease, and consumer response to the high prices was beginning to be felt. Cheddar cheese prices on the Chicago Mercantile Exchange (CME) fell 40 cents per pound from their peak and remain under considerable pressure. With the value of milk being considerably higher in cheese than in butter-powder and the general profitability of using nonfat dry milk and cream to make cheese, extra loads of cheese are now commonly available. Meanwhile, buyers have become more comfortable not buying every load offered.

The flow of milk solids into cheese and the likely rebuilt pipeline holdings probably will continue to push down cheese prices this summer, particularly if milk production moves back towards year-earlier levels as expected. However, sales are expected to stay strong enough to keep markets fairly tight. Any weather stress or other production problem or a surge in cheese movement could cause prices to plateau or even recover temporarily.

Butter price declines preceded those of cheese. Between mid-April and late May, CME butter prices fell 60 cents per pound. However, butter prices then recovered more than 20 cents. Sizable amounts of cream were being used in cheese, and there were indications that additional cream was siphoned off into storage or food processing before it reached the churns. Even though into-storage movement of butter became larger than a year earlier, expected butter production was not likely, at the current cheese prices, to be enough to meet second-half needs. Butter prices are projected to trend lower this summer as cheese prices ease. However, butter prices may be prone to short-run reversals and some volatility.

Tightening in the skim solids markets has been enough to give even nonfat dry milk prices a boost. In early May, powder prices were about 90 cents per pound in the East and Central and even managed about 85 cents in the West. This was the first significant rise above the support purchase price in years. Commercial exports probably will be key to whether prices can stay above the support purchase price in coming months. If exports continue modest as expected, price support purchases probably will resume, as prices adjust

downward. However, the domestic excess is projected to be small enough that more-vigorous-than-expected export buying could easily absorb it.

### ***Milk Prices To Slip but Still Set Record***

Farm milk prices during the rest of 2004 are projected to retreat from their May record of more than \$20 per cwt but will stay well above a year earlier. Markets are expected to stay fairly tight. The steepness of the price decrease will be very sensitive to production and sales developments, as well as pipeline and warehouse stocks. Also, prices could still be somewhat volatile even if the general trend is downward.

The value of milk in cheese is expected to remain considerably higher than butter-powder values during the remainder of 2004. Cheese sales probably will require the lion’s share of the milk supply. However, the price gap is unlikely to be as wide as during spring. Continued manufacture of cheese from nonfat dry milk may not be needed and might cease to be profitable, particularly if exports buttress powder prices.

The average price of all milk in 2004 is projected to be more than \$16 per cwt, up more than a fourth from 2003 and easily a record. Next year’s larger expected milk production, in combination with some likely carryover effects of this year’s high prices on use, probably will drop 2005 milk prices. Milk prices are projected to average almost \$3 below 2004.

### ***Retail Prices Try To Catch Up***

Retail prices of dairy products jumped to 185.9 (1982-84=100) in May, up more than 12 percent from a year earlier and almost 7 percent from April. Prices were higher for almost all dairy products, although the largest April to May rises were for fluid milk. Fluid milk prices had been relatively moderate since mid-2003 before shooting up 14 percent between April and May. Although dairy prices rose considerably more than average food prices and received much media attention, sharply higher prices for many other foods cushioned the demand impact somewhat.

Even these May retail prices did not fully reflect increases in farm and wholesale prices. The farm-

to-retail price spread this spring dropped from a year earlier. The spread has been considerably below a year earlier since mid-2003 but is expected to start widening during the second half of 2004.

Retail dairy prices are projected to continue rising through the end of the year. Recovery in the

spread probably will more than offset the declining farm and wholesale prices. For the year, retail dairy prices are expected to rise 6 to 10 percent from a year earlier. In 2005, retail prices are projected to hold near the levels of late 2004. Even so, prices would average slightly higher than the 2004 average.

### ***Beef Supplies Remain Tight***

Beef production continues well below year-earlier levels, although slaughter and weights are rising seasonally. Beef exports are down sharply from a year earlier because of bans by major importers due to Bovine Spongiform Encephalopathy (BSE). Even with reduced exports and record imports, beef supplies remain tight, and retail beef prices are again rising. Reduced steer and heifer slaughter and lighter weights contributed to a 7-percent decline in beef production in the first quarter, and a similar decline is expected in the second quarter. In addition, beef production is also lower as cow slaughter has been sharply reduced due to the initial stages of beef cow retention and strong dairy prices. Fed cattle and beef prices across the board have surged this spring, but remain below the record levels set last fall. Strong demand for tight supplies of stocker/feeder/replacement cattle has resulted in another record setting surge in prices this spring.

### ***Retail Beef Prices Strengthen***

Prices for Choice beef at retail have climbed back above \$4 a pound with full expectations that very tight beef supplies will support prices remaining above \$4 for the next couple of years. April and May prices averaged \$4.06 a pound, up 11 and 12 percent, respectively, from a year earlier.

Fed cattle prices have risen from near \$80 per cwt (100 pounds) at the beginning of the year to over \$90 per cwt in

Mid-June. The Choice/Select price spread has narrowed seasonally, but remains near to slightly above a year earlier. Cattle on feed inventories are below year-earlier levels, with placements well below last year each month this year.

Feeder cattle supplies continue to decline, and with favorable spring forage growth in many areas there is strong competition for the available supply. Demand for the reduced supply from cattle feeders, stocker operators and likely heifer retention has resulted in sharply higher feeder cattle prices. Prices for yearlings in mid-June were averaging well above the record \$104 per cwt of last fall. Breakeven prices for cattle placed in June are going to be near \$90 per cwt when they are marketed in October, assuming feed costs remain near recent levels. Given the present strength in the fed cattle market, this price range is certainly possible, but increased supplies of competing meats or rising grain prices would push breakevens into the red quickly.

Utility cow prices reflect reduced beef and dairy cow slaughter and very tight processing beef supplies. Even adjusting for slaughter cow imports from Canada through May 20, 2003, cow slaughter is down sharply. Demand and movement for processing beef is strong, with prices for 90 percent lean trimmings averaging above \$130 per cwt, near the highs of the past year, but still below the records near \$140 per cwt of the early 1990s when herd expansion was last under way.

### ***First-Quarter Beef Imports Surge***

Demand for imported lean processing beef has increased to unprecedented levels as hamburger sales continue at a robust pace in the face of cyclically low cow slaughter. Leading fast food chains reported strong year-over-year same store sales in spite of high ground beef prices. The supply of domestic lean processing beef has fallen to near-term record lows amid an expected 14-percent decline in 2004 cow slaughter. As a result, 2004 beef imports are expected to increase 14 percent—to a record 3.4 billion pounds—to augment lean meat supplies. Imports in 2005 may be marginally smaller as imported supplies become more limited.

Beef imports in 2004 and 2005 assume imports from Australia and New Zealand remaining near historical levels. Record imports in 2004 are expected from South America and large imports are expected from Canada. Beef imports from Uruguay should remain high until its unusually large cattle inventory declines to a more normal level. A record-large inventory in Uruguay accumulated while beef exports remained banned between mid-2001 and mid-2003 because of foot-and-mouth disease. Imports of heat-treated product from Brazil and Argentina should remain high because of strong domestic demand for near-ready-to-eat microwavable foods.

### ***Supplies Available To Meet U.S. Beef Import Demand***

Record imports are likely in spite of increased exports to Japan and South Korea by Australia and New Zealand--two major U.S. beef suppliers--to substitute for banned U.S. beef in those markets. Firstly, such substitution potential is limited, as beef from Australia and New Zealand is not similar in quality to U.S. grain-fed beef because most of their beef is grass fed. Exports of fresh/chilled and frozen beef from Australia to Japan, for example, increased only 19 percent and 43 percent, respectively, from January to April 2004, compared with a year earlier.

Normally, Australian fresh/chilled and frozen beef each account for about 24 percent of Japan's total beef imports, with the United States supplying

most of the remaining 52 percent. If the January-to-April trends in Australia's exports to Japan were to continue throughout the year, Australia would increase its fresh/chilled and frozen share of beef exports to 63 percent, respectively, of a "normal" sized Japanese market that might exist were U.S. beef not banned. However, Australian beef would only substitute for about 29 percent of the beef that otherwise might be supplied to Japan by the United States.

A second reason that international supplies may be adequate to supply record U.S. import demand is that Australia and New Zealand have redirected much of their traditional exports away from other countries to Japan, South Korea, and the United States. Combined trade data indicate that total beef exports from Australia and New Zealand have decreased by 65 percent to Canada from January through April, compared with last year, and by 4 percent to other countries (excluding the United States, Japan, and South Korea). Demand for processing beef in Canada has declined so dramatically because of the large supplies of cattle in the Canadian market, as reported in last month's newsletter.

### ***BSE-related Restrictions Continue To Limit Beef Exports and Cattle Trade***

Beef exports for 2004 are expected to reach only 451 million pounds, as only limited exports flow to Canada and Mexico—the only two major markets open to the United States. Both countries limit U.S. exports to boneless cuts from animals below 30 months of age. Exports to Canada and Mexico for the first 4 months of 2004 were only 5 percent and 14 percent, respectively, of year-earlier levels. Exports to both should increase but are likely to remain below pre-BSE levels.

Imports of significant numbers of feeder cattle from Mexico are the only sign of normal cattle trade. Imports of live animals from Canada to the United States remain banned. While Canada allows imports of live cattle from the United States, large supplies of Canadian cattle have made that option unattractive. Mexico does not allow imports of live animals from the United States, but the United States imported 6 percent more feeder cattle from Mexico in the first quarter of 2004 than

during the same period last year. These larger imports occurred in spite of higher-than-normal precipitation that fostered good forage conditions throughout Mexico during the winter. Periods of good forage conditions in Mexico tend to limit feeder cattle exports as animals are fed to heavier weights on pasture for export later, but stronger U.S. feeder cattle prices attracted feeder cattle imports.

The forecasts for both 2004 and 2005 are for imports of 1.3 million head of feeder cattle, all from Mexico. That would be 100,000 more than the United States imported from Mexico in 2003, a number that could go higher if dry conditions appear in Mexico later in 2004 and feeder cattle prices remain in the \$95-\$100 range.

### *Hog Prices Sharply Higher*

The live equivalent price of 51-52 percent lean hogs in May averaged \$58.45 per cwt, almost 34 percent higher than May 2003. Hog prices will remain 'high' as long as domestic and foreign consumer demand for pork products remains strong and production steady. Second-quarter hog prices are expected to be between \$54 and \$55 per cwt, and between \$47 and \$48 per cwt for the year. Sustained consumer demand for pork will hold hog prices at between \$45 and \$49 per cwt in 2005.

Pork production in the second quarter is expected to be 4.9 billion pounds, more than 3 percent higher than a year ago, but less than previously forecast. May hog slaughter was lower than expected, dropping slightly from the 1.9-million-head pace seen weekly so far this year. Weekly slaughter numbers in June will likely be closer to what the industry handled prior to May. Given strong consumer demand—both domestic and foreign—it appears that processors are attempting

to maximize throughput in order to achieve lower per-unit costs that accompany the scale economies of large weekly slaughter.

Based on production and trade expectations, per capita pork consumption this year is expected to be 51.7 pounds, or fractionally lower than last year. So far in 2004, consumers appear willing to pay higher prices for roughly the same quantity of pork consumed last year. Retail prices should average in the mid-\$2.70s per pound this year, or about 3 percent higher than in 2003. Sustained consumer demand into 2005 should yield an average retail pork price in the low-\$2.80s, or about 3 percent higher than this year, pointing to a slightly higher farm-to-retail spread in 2005.

The industry awaits USDA's June 25th release of the *Hogs and Pigs* report for a fresh perspective on how producers' breeding decisions and intentions, in particular, may be responding to hog prices that, so far this year are higher than they have been since 1997.

### *Broiler Production Up in April*

U.S. broiler production in 2004 has been expanding at only a moderate rate despite strong wholesale prices for most broiler products. Total broiler meat production in April was 2.8 billion pounds, 2.7 percent higher than the previous year. Over the first 4 months of 2004 broiler production rose 4.7 percent from the same period in 2003. Most of this increase came in March which had two more slaughter days than in the previous year. The increase in broiler meat production in April was the result of both an increase in the number of birds being slaughtered (up 2.3 percent) and an increase in their average liveweight (up 0.5 percent). The pattern of modest expansion in broiler production is expected to continue through the remainder of the second quarter and into the second half of 2004. The estimate for broiler production in the second quarter has been reduced to 8.5 billion pounds, which is still an increase of 2.9 percent over the same period in 2003. Broiler meat production estimates have also been reduced for the third and fourth quarters, lowering the estimate of annual broiler meat production in 2004 to 33.9 billion pounds, 3.6 percent higher than the previous year.

One reason for the reduction in the broiler production estimates is that weekly estimates of the number of eggs placed in incubators and chicks placed for growout have been averaging between 1.5 to 2 percent higher than in similar weeks a year earlier. Over the last 5 weeks (May 8 to June 5), the number of eggs placed in incubators has averaged 1.4 percent higher than in the same period in the previous year, while the number of chicks placed for growout has averaged nearly 1.9 percent higher. This pattern of relatively small increases in the number of chicks being placed for growout is expected to continue as the average number of broiler-type hens in the laying flock in April was down 1 percent from the previous year.

With a strengthening domestic economy, strong prices for competing protein products such as beef and pork, and only a relatively slow expansion in broiler production, prices for most broiler products have risen. Wholesale prices for most broiler products were considerably higher in May than at the same time in the previous year. Prices for boneless/skinless breast meat in the Northeast

market averaged \$2.33 per pound in May, up 43 percent from the previous year. The 12-city price for whole broilers has also increased sharply, with prices at the beginning of June reaching close to 80 cents per pound, up 34 percent from the previous year. Leg quarter prices, usually moved upward by growth in export demand, have risen even though overall broiler exports are down. In May, the average price for broiler leg quarters in the Southern market was 35 cents per pound, up over 70 percent from a year earlier. Prices for most broiler products are expected to remain strong through the rest of 2004, as slowly growing broiler production keeps overall supplies tight.

Broiler exports in first-quarter 2004 totaled 1.02 billion pounds, down almost 15 percent from the previous year. The decline in broiler exports during the first quarter of 2004 was due in large part to bans or restrictions on U.S. broiler shipments to a number of countries due to outbreaks of Avian Influenza (AI) in the United States. The decreases were the strongest in Russia and some of the larger Asian markets. Shipments to Russia in the first quarter totaled only 277 million pounds, down 33 percent from the previous year. The decline in shipments to Russia was partially offset by strong export growth to the Baltic countries and Commonwealth of Independent States (CIS). Lower exports to the Hong Kong/China market have also been a prime factor in the fall in broiler shipments in first-quarter 2004.

With two additional AI outbreaks reported in Texas, the export outlook remains uncertain, although a number of countries, including Japan, are now starting to allow shipments of broiler products from States that have not had AI outbreaks. Exports are now expected to be at about the same level in the second quarter as they were in the first. Exports are then expected to increase somewhat in the third and fourth quarters as trade issues are resolved. Overall broiler exports for 2004 are expected to total 4.3 billion pounds, down over 600 million pounds from the previous year. In addition to the trade restrictions due to the AI outbreaks, broiler exports will also be reduced by the impact of much higher prices for almost all broiler parts, especially leg quarters.

### ***Turkey Production Falls in April***

U.S. turkey production continued to decline in April after falling by 5.6 percent in the first quarter of 2004. Turkey meat production in April was 449 million pounds, down 5.4 percent from the previous year. The decrease in April was due to a lower number of turkeys being slaughtered as the average liveweight at slaughter rose slightly. Turkey production is expected to continue to be lower than the previous year through the rest of 2004. The estimates for turkey meat production in the second, third, and fourth quarters of 2004 have been revised downward and the estimate for 2004 is now 5.4 billion pounds, 4.5 percent lower than in the previous year.

With stronger demand for most protein products and lower turkey production, wholesale prices of almost all turkey products are well above their year-earlier levels. The three-region average price for whole turkeys in May was 66.5 cents per pound, up almost 13 percent from the previous year. Prices for turkey wings have also increased sharply, with prices for full cut wings up over 100 percent compared with the previous year. Mechanically deboned meat (MDM), which is a major export product to Mexico, averaged 39 cents per pound in April, almost 100 percent higher than at the same time in 2003. Prices for most turkey products are expected to remain strong through the rest of 2004, as exports slowly increase and production remains well below the previous year.

Turkey exports in first-quarter 2004 totaled only 83 million pounds, down almost 20 percent from the previous year. Turkey exports suffered from the same disease restrictions as broiler exports. Turkey exports fell to most countries. The major exceptions were Mexico, Canada, the Baltic States, and the CIS countries. The largest factor contributing to the lower shipments was a large decline in exports to the Hong Kong/China market. Overall shipments to this market totaled only 2.7 million pounds, which was down over 13 million pounds or 83 percent from the previous year. Turkey exports are expected to expand some in the second quarter, but shipments are expected to remain lower than the previous year. Overall, turkey exports in 2004 are expected to be 408 million pounds, 15 percent lower than in 2003.

With lower production and higher prices, stocks of turkeys and turkey parts held in cold storage have been reduced. At the end of April, cold storage holdings of whole turkeys totaled 260 million pounds, 1 percent lower than at the same time in 2003. This is a considerable change from earlier in the year. At the end of February stocks of whole turkeys were 15 percent higher than the previous year. Cold storage stocks of turkey parts were also lower at the end of April, down 10 percent from the previous year.

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### Related Article

The recent discovery of bovine spongiform encephalopathy (BSE) <http://www.ers.usda.gov/features/BSE/index.htm> in a dairy cow in the State of Washington has caused importers to either ban or restrict beef imports from the United States.

### Data

Retail Price Reporting for Meat

<http://www.ers.usda.gov/Data/Meatscanner/> A new ERS database contains monthly average retail prices for selected cuts of red meat and poultry based on electronic supermarket scanner data. While not based on a random sample, the raw data underlying the database are from supermarkets across the United States that account for approximately 20 percent of U.S. supermarket sales. [Leland Southard](#), (202) 694-5187.

### Web Sites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>

Cattle, <http://www.ers.usda.gov/briefing/cattle/>

Hogs, <http://www.ers.usda.gov/briefing/hogs/>

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**Red meat and poultry forecasts**

	2001	2002	2003				2004					2005		
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
<b>Production, million lb</b>														
Beef	26,107	27,090	6,282	6,902	7,081	5,973	26,238	5,834	6,360	6,675	6,000	24,869	5,725	24,350
Pork	19,138	19,664	4,898	4,741	4,807	5,499	19,945	5,130	4,900	4,965	5,440	20,435	5,050	20,315
Lamb and mutton	223	219	49	50	48	52	199	52	48	47	50	197	51	197
Broilers	31,266	32,240	7,786	8,275	8,448	8,240	32,749	8,208	8,515	8,725	8,475	33,923	8,400	35,125
Turkeys	5,562	5,713	1,380	1,439	1,409	1,423	5,650	1,302	1,370	1,350	1,375	5,397	1,315	5,575
Total red meat & poultry	83,006	85,669	20,570	21,586	21,965	21,355	85,476	20,688	21,362	21,935	21,506	85,491	20,699	86,226
Table eggs, mil. doz.	6,078	6,190	1,524	1,528	1,559	1,596	6,207	1,554	1,565	1,590	1,610	6,319	1,580	6,400
<b>Per capita consumption, retail lb 1/</b>														
Beef	66.2	67.6	16.2	16.9	16.9	15.0	64.9	15.9	17.1	17.7	15.7	66.5	15.2	64.2
Pork	50.2	51.5	12.6	12.5	12.6	14.1	51.8	13.0	12.3	12.7	13.7	51.7	12.4	50.6
Lamb and mutton	1.1	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.2	0.3	1.2
Broilers	76.6	80.5	19.6	20.7	21.3	19.9	81.5	20.8	21.6	22.0	21.1	85.6	20.9	86.7
Turkeys	17.5	17.7	3.6	3.9	4.6	5.3	17.4	3.6	3.8	4.3	5.3	16.9	3.3	16.9
Total red meat & poultry	213.6	220.5	52.8	54.9	56.1	55.0	218.8	54.1	55.6	57.4	56.5	223.6	52.6	221.4
Eggs, number	252.7	255.5	62.6	63.0	63.8	65.3	254.7	63.5	63.9	64.7	65.4	257.5	63.4	256.2
<b>Market prices</b>														
Choice steers, Neb., \$/cwt	72.71	67.04	77.82	78.49	83.07	99.38	84.69	82.16	88-89	82-86	85-93	84-88	82-88	83-89
Feeder steers, Ok City, \$/cwt	88.20	80.04	78.48	82.49	94.90	103.51	89.85	87.98	103-104	103-107	101-109	98-102	90-96	93-99
Boning utility cows, S. Falls, \$/cwt	44.39	39.23	40.53	46.52	49.84	49.60	46.62	48.08	55-56	52-54	51-55	51-53	48-52	48-52
Choice slaughter lambs, San Angelo, \$/cwt	72.04	72.31	91.92	93.71	89.48	92.82	91.98	100.62	95-96	93-97	91-99	94-98	95-101	93-99
Barrows & gilts, N. base, l.e. \$/cwt	45.81	34.92	35.38	42.64	42.90	36.89	39.45	44.18	54-55	49-51	40-44	47-49	47-51	45-49
Broilers, 12 City, cents/lb	59.10	55.60	60.30	59.60	63.40	64.60	62.00	73.20	77-78	73-77	70-76	73-76	68-74	69-75
Turkeys, Eastern, cents/lb	66.30	64.50	61.10	60.60	59.10	67.40	62.10	62.10	65-66	65-69	67-73	65-67	59-63	64-69
Eggs, New York, cents/doz.	67.20	67.10	77.20	73.90	89.90	110.70	87.90	114.80	82-83	85-89	93-101	94-97	96-104	91-99
<b>U.S. trade, million lb</b>														
Beef & veal exports	2,269	2,447	585	678	681	579	2,523	36	115	150	150	451	150	600
Beef & veal imports	3,164	3,218	810	741	619	836	3,006	873	900	890	770	3,433	830	3,420
Lamb and mutton imports	146	162	40	44	35	48	167	62	45	39	42	188	55	191
Pork exports	1,560	1,611	413	438	406	460	1,717	523	550	475	525	2,073	525	2,085
Pork imports	951	1,070	289	301	298	297	1,185	275	280	285	290	1,130	270	1,090
Broiler exports	5,555	4,807	1,200	1,166	1,182	1,385	4,932	1,024	1,025	1,100	1,150	4,299	1,100	4,800
Turkey exports	487	439	103	114	130	136	483	83	100	100	125	408	115	495

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

## Economic Indicator Forecasts <sup>1/</sup>

	2003					2004					2005	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
<b>GDP, chain wtd (bil. 2000 dol.)</b>	10,210	10,288	10,493	10,599	10,398	10,709	10,827	10,937	11,045	10,880	11,149	11,301
<b>CPI-U, annual rate (pct.)</b>	3.9	0.6	2.3	0.9	1.9	3.6	2.9	2.2	2.0	2.7	2.1	2.2
<b>Unemployment (pct.)</b>	5.8	6.2	6.1	5.9	6.0	5.6	5.6	5.5	5.4	5.5	5.4	5.3
<b>Interest (pct.)</b>												
3-month Treasury bill	1.2	1.0	1.0	0.9	1.0	0.9	1.0	1.3	1.6	1.2	2.0	2.5
10-year Treasury bond yield	3.9	3.6	4.2	4.3	4.0	4.0	4.6	4.8	5.0	4.6	5.2	5.2

<sup>1/</sup> Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, May 2004.

## Dairy Forecasts

	2003					2004					2005	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Milk cows (thous.)	9,144	9,109	9,073	9,011	9,084	8,991	8,980	8,970	8,940	8,970	8,900	8,855
Milk per cow (pounds)	4,710	4,827	4,601	4,609	18,748	4,750	4,860	4,640	4,675	18,925	4,845	19,445
<b>Milk production (bil. pounds)</b>	43.1	44.0	41.7	41.5	170.3	42.7	43.6	41.6	41.8	169.8	43.1	172.2
<b>Commercial use (bil. pounds)</b>												
milkfat basis	41.4	43.0	44.9	45.3	174.6	42.1	43.4	45.2	45.3	175.9	42.1	176.2
skim solids basis	40.3	41.5	42.4	41.9	166.0	42.7	43.3	42.7	42.4	171.1	42.5	172.4
<b>Net removals (bil. pounds)</b>												
milkfat basis	0.4	0.6	0.2	0.0	1.2	-0.1	0.0	0.1	0.0	0.0	0.0	0.1
skim solids basis	3.0	3.1	1.4	0.9	8.3	0.6	0.4	1.0	0.9	2.8	0.8	3.9
<b>Prices (dol./cwt)</b>												
All milk 1/	11.37	11.00	13.30	14.40	12.52	14.07	18.95 -19.15	16.65 -17.15	15.15 -15.95	16.20 -16.60	12.85 -13.85	13.05 -14.05
Class III	9.52	9.62	13.29	13.24	11.42	12.66	19.10 -19.30	16.05 -16.55	13.45 -14.25	15.30 -15.70	11.10 -12.10	11.75 -12.75
Class IV	9.89	9.74	10.05	10.33	10.00	12.43	13.95 -14.25	12.30 -12.90	11.45 -12.35	12.50 -13.00	10.75 -11.85	11.15 -12.25

1/ Simple averages of monthly prices. May not match reported annual averages.